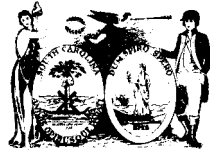


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
FAX (803) 343-0723

June 11, 2001

Ms. Sybil B. Neaves, Director of Reimbursement
Integrated Health Services, Inc.
The Highlands
910 Ridgebrook Road
Sparks, Maryland 21152

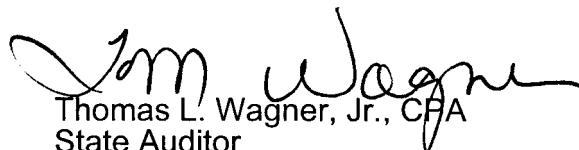
Re: AC# 3-MGV-J8 – Magnolia Manor – Greenville, Inc.

Dear Ms. Neaves:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1997 through September 30, 1998. That report was used to set the rate covering the contract period beginning October 1, 1999.

We are recommending that the Department of Health and Human Services certify an accounts payable for the amounts underpaid as a result of the rate change shown at Exhibit A. You will be notified of payment by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Robert M. Kerr

MAGNOLIA MANOR – GREENVILLE, INC.

GREENVILLE, SOUTH CAROLINA

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 1999
AC# 3-MGV-J8**

REPORT ON CONTRACT

FOR

PURCHASE OF NURSING CARE SERVICES

WITH

STATE OF SOUTH CAROLINA

DEPARTMENT OF HEALTH AND HUMAN SERVICES

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

February 14, 2001

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Magnolia Manor – Greenville, Inc., for the contract period beginning October 1, 1999, and for the twelve month cost report period ended September 30, 1998, as set forth in the accompanying schedules. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.


The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Magnolia Manor – Greenville, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and Magnolia Manor – Greenville, Inc. dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
February 14, 2001

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.


Thomas L. Wagner, Jr., CPA
State Auditor

MAGNOLIA MANOR - GREENVILLE, INC.

Computation of Rate Change
For the Contract Period
Beginning October 1, 1999
AC# 3-MGV-J8

	10/01/99 - <u>09/30/00</u>
Adjusted reimbursement rate	\$86.65
Interim reimbursement rate (1)	<u>84.73</u>
Increase in reimbursement rate	\$ <u><u>1.92</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated December 19, 2000

MAGNOLIA MANOR - GREENVILLE, INC.
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 1999 Through September 30, 2000
AC# 3-MGV-J8

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$41.14	\$50.88	
Dietary		8.58	9.69	
Laundry/Housekeeping/Maint.		<u>7.74</u>	<u>8.24</u>	
Subtotal	<u>\$4.82</u>	57.46	68.81	\$57.46
Administration & Med. Records	<u>\$1.79</u>	<u>9.77</u>	<u>11.56</u>	<u>9.77</u>
Subtotal		67.23	<u>\$80.37</u>	67.23
<u>Costs Not Subject to Standards:</u>				
Utilities		1.78		1.78
Special Services		1.35		1.35
Medical Supplies & Oxygen		3.75		3.75
Taxes and Insurance		1.36		1.36
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$75.47</u>		75.47
Inflation Factor (3.00%)				2.26
Cost of Capital				6.19
Cost of Capital Limitation				(.34)
Profit Incentive (Max. 3.5% of Allowable Cost)				1.79
Cost Incentive				4.82
Effect of \$1.75 Cap on Cost/Profit Incentives				(4.86)
CNA (75 cents) Add-On				.75
Nurse Aide Staffing Add-On				<u>.57</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$86.65</u>

MAGNOLIA MANOR - GREENVILLE, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-MGV-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,793,615	\$ -	\$ 5,886 (2) 8,394 (3)	\$1,779,335
Dietary	379,756	-	448 (3) 8,192 (5)	371,116
Laundry	94,326	1,706 (4)	-	96,032
Housekeeping	164,151	-	-	164,151
Maintenance	74,481	-	-	74,481
Administration & Medical Records	456,674	14,800 (2) 616 (3)	49,579 (4)	422,511
Utilities	78,805	-	1,919 (6)	76,886
Special Services	70,661	-	554 (4) 8,755 (7) 3,143 (8)	58,209
Medical Supplies & Oxygen	190,005	1,193 (7)	28,842 (3)	162,356
Taxes and Insurance	58,924	-		58,924
Legal Fees	-	-	-	-
Cost of Capital	293,034	52,876 (9)	70,895 (1) 7,395 (4)	267,620
Subtotal	3,654,432	71,191	194,002	3,531,621
Ancillary	42,770	-	-	42,770

MAGNOLIA MANOR - GREENVILLE, INC.
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 1998
AC# 3-MGV-J8

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Non-Allowable	390,654	70,895 (1) 37,068 (3) 55,822 (4) 7,562 (7) <u>3,143 (8)</u>	8,914 (2) 52,876 (9)	503,354
Total Operating Expenses	<u>\$4,087,856</u>	<u>\$245,681</u>	<u>\$255,792</u>	<u>\$4,077,745</u>
Total Patient Days	<u>45,672</u>	<u>-</u>	<u>2,426 (10)</u>	<u>43,246</u>
Total Beds	* <u>129</u>			

*Decreased to 88 August 1, 1998

MAGNOLIA MANOR - GREENVILLE, INC.
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-MGV-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Other Equity	\$ 301,327	
	Nonallowable	70,895	
	Accumulated Depreciation	616,975	
	Cost of Capital		\$ 70,895
	Fixed Assets		918,302
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Administration	14,800	
	Nonallowable		8,914
	Nursing		5,886
	To adjust Premiere fees to allowable HIM-15-1, Section 2304		
3	Administration	616	
	Nonallowable	37,068	
	Nursing		8,394
	Dietary		448
	Medical Supplies & Oxygen		28,842
	To disallow undocumented expenses and reclassify expenses to the proper cost center HIM-15-1, Section 2304 DH&HS Expense Checklist		
4	Nonallowable	55,822	
	Laundry	1,706	
	Administration		49,579
	Therapy		554
	Cost of Capital		7,395
	To adjust Magnolia Group, Inc. - Home Office, Magnolia Group, Inc.- Laundry, and IHS expense HIM-15-1, Sections 1000 and 2304 State Plan, Attachment 4.19D		

MAGNOLIA MANOR - GREENVILLE, INC.
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-MGV-J8

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Employee/Guest Meal Income	8,192	
	Dietary Income Offset		8,192
	To properly offset income against related expense HIM-15-1, Sections 2328D and 332.1		
6	Vending Income	1,919	
	Utilities Income Offset		1,919
	To properly offset income against related expense HIM-15-1, Section 2328D		
7	Nonallowable	7,562	
	Medical Supplies	1,193	
	Therapy		8,755
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		
8	Nonallowable	3,143	
	Therapy		3,143
	To adjust co-insurance for Medicare Part B services State Plan, Attachment 4.19D		
9	Cost of Capital	52,876	
	Nonallowable		52,876
	To adjust capital return State Plan, Attachment 4.19D		

MAGNOLIA MANOR - GREENVILLE, INC.
Adjustment Report
Cost Report Period Ended September 30, 1998
AC# 3-MGV-J8

ADJUSTMENT <u>NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
10	Memo Adjustment To decrease total patient days by 2,426 to 43,246 to reflect the decrease in beds to 88 in August and September		
		\$1,174,094	\$1,174,094
	TOTAL ADJUSTMENTS	\$1,174,094	\$1,174,094

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

MAGNOLIA MANOR - GREENVILLE, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998
AC# 3-MGV-J8

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.2493</u>	<u>2.2493</u>	
Deemed Asset Value (Per Bed)	35,130	35,130	
Number of Beds	<u>129</u>	<u>88</u>	
Deemed Asset Value	4,531,770	3,091,440	
Improvements Since 1981	566,800	566,800	
Accumulated Depreciation at 9/30/98	<u>(1,244,868)</u>	<u>(1,244,868)</u>	
Deemed Depreciated Value	3,853,702	2,413,372	
Market Rate of Return	<u>.063</u>	<u>.063</u>	
Total Annual Return	242,783	152,042	
Number of Days in Period	<u>304/365</u>	<u>61/365</u>	
Adjusted Annual Return	202,208	25,410	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	202,208	25,410	
Depreciation Expense	37,970	7,618	
Amortization Expense	213	43	
Capital Related Income Offsets	(4,866)	(976)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	235,525	32,095	\$267,620
Total Patient Days (Minimum 97% Occupancy)	<u>38,039</u>	<u>5,207</u>	<u>43,246</u>
Cost of Capital Per Diem	\$ <u>6.19</u>	\$ <u>6.16</u>	\$ <u>6.19</u>

MAGNOLIA MANOR - GREENVILLE, INC.
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 1998
AC# 3-MGV-J8

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$1.86
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$5.85</u>
Reimbursable Cost of Capital Per Diem	\$5.85
Cost of Capital Per Diem	<u>6.19</u>
Cost of Capital Per Diem Limitation	\$ <u>(.34)</u>

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